Testimony of Reginald Modlin, JD to the House Subcommittee on Department Operations, Oversight, Dairy, Nutrition, and Forestry

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DaimlerChrysler appreciates the opportunity to give our views on renewable fuels. DaimlerChrysler Corporation strongly supports the use of renewable fuels. Since 1996, DaimlerChrysler has produced and sold over one and a half million flexible fuel vehicles (FFVs). These vehicles are capable of operation either conventional gasoline, E85 (a mixture of 85% ethanol and 15% gasoline, or any combination of the two. The FFV concept was developed to overcome the "chicken and egg" dilemma. Collectively, the auto industry has produced over five million FFVs, but, since the E85 retail marketing infrastructure is still in the early stages of development, most of these vehicles are operated primarily on gasoline, not E85.

However, if the FFVs on the road today were operated exclusively on E85, we could reduce America's dependence on petroleum by 250,000 barrels per day. Additionally, several auto manufacturers, including DaimlerChrysler, have announced plans for deployment of substantially higher volumes of FFVs in the future. In the case of DaimlerChrysler, our plan anticipates production of nearly 500,000 FFVs in the 2008 model year. Our modeling suggests that if industry-wide production of E-85 capable FFVs increased to 30% of total production, and these vehicles operated exclusively on E-85, our nation could reduce its petroleum demand by almost 2.5 million barrels/day in twenty years, compared to the EIA base case scenario.

Congress can act in two arenas to facilitate this potential substitution of ethanol for petroleum in the light duty transportation sector. First, Congress has recognized in the past that there is an incremental cost to auto manufacturers to make a vehicle E-85 compatible. Given that there is currently little customer demand for this option, Congress has authorized a CAFE credit encourage the production of FFVs. To continue, and expand FFV availability, Congress should extend this credit program beyond its currently scheduled termination in 2014. Second, Congress should help in accelerating the growth of ethanol production, distribution, and retail sales infrastructures through tax incentives, capital depreciation allowances, or other fiscal instruments.

On another front, DaimlerChrysler has been a leader in promoting the use of renewable biodiesel, both in the light and heavy duty transportation sectors. All DaimlerChrysler diesel vehicles, from the Smart mini-car to Freightliner Class 8 freight hauling 18-wheelers are validated for operation on properly formulated B5 (5% biodiesel/95% petroleum-based diesel) meeting appropriate quality specifications. While diesel engines are inherently more efficient than comparably performing gasoline engines, the use of renewable biodiesel offers an opportunity for further displacement of petroleum demand. To further promote the use of biodiesel, and elevate consumer awareness, the

Jeep Liberty CRD diesel-powered SUV, each vehicle has been fueled with B5 (a mixture of 5% biodiesel and 95% petroleum-based diesel at our Toledo, Ohio assembly plant from the first day of production . Going a step farther, we recently announced that DaimlerChrysler will endorse the use of B20 (20% biodiesel in petroleum diesel) in the Dodge Ram truck equipped with a Cummins diesel engine when used in fleets managed by our commercial, government, and military fleets who follow the U.S. Defense Department's specification A-59693A. We are able to take these actions (B5 factory fill for the Liberty, and endorsement of B20 in fleets) because in both cases, the fuel is carefully specified, and its use is managed by professional fuel handlers. The matter of proper quality specifications for B20 is paramount importance. Given an enforceable, high quality ASTM specification, DaimlerChrysler is prepared to endorse the use of B20 in most if not all of our diesel-powered vehicles. We are currently working on development of such a specification with industry partners, academia, and government agencies, under the overall direction of Next Energy, a Detroit-based non-profit corporation whose mission is to develop energy alternatives. The use of B20 across the board, in both light and heavy duty diesel applications offers the potential for the reduction of demand for petroleum by 700,000 barrels per day.

As with E-85 ethanol, there is a role for Congress to play in promoting the expanded use of renewable biodiesel. First, diesel-powered vehicles capable of operation on biodiesel blends should be eligible for a CAFE credit analogous to that given to E-85 FFVs. Second, Congress can craft some tax-based incentives for the production, distribution, and retail marketing of biodiesel.

Today the vast majority of ethanol and biodiesel are produced from corn and soybeans, respectively. While these fuels, from these feedstocks allow for substantial petroleum demand displacement today, we believe that there is a need for significantly improved processes for both ethanol, and renewable diesel fuel. In particular, there are significant advantages for cellulosic ethanol and Biomass-to-Liquids (BTL) processes. These processes need to be judged on a "field-to-wheels" life cycle analysis. This does not mean that farmers are to be excluded from the renewable fuels production process. Rather, we see a future in which there "food farmers", and "fuel farmers". Again, there is a role for Congress to play. Current process for cellulosic ethanol and BTL carry substantial capital costs in an uncertain market. Congress can help facilitate the adoption of new processes by funding research into optimal processes for fuel production, and financial incentives to encourage investment in new processes.

In conclusion, DaimlerChrysler sees great opportunities for renewable bio-fuels to reduce the demand for petroleum in the United States. We are committed to produce larger volumes of E-85 capable FFVs, and B20 capable diesel-powered vehicles. However, DaimlerChrysler does not produce, distribute, or market fuels, so the energy sector needs appropriate encouragement to invest renewables. There are opportunities for Congress to accelerate both the production of vehicles capable of running on renewable fuels, and the installation of renewable fuel feedstock growth, production, distribution, and marketing facilities for renewable fuels.